

**CMP: INR 811**

**Rating: BUY**

**Target Price: INR 2632**

**Stock Info**

BSE	500302
NSE	PEL
Bloomberg	PIEL:IN
Reuters	PIRA. NS
Sector	BFSI
Face Value (INR)	2
Equity Capital (INR Cr)	45
Mkt Cap (INR Cr)	18,624
52w H/L (INR)	1140 / 630
Avg Yearly Vol (in 000')	1694

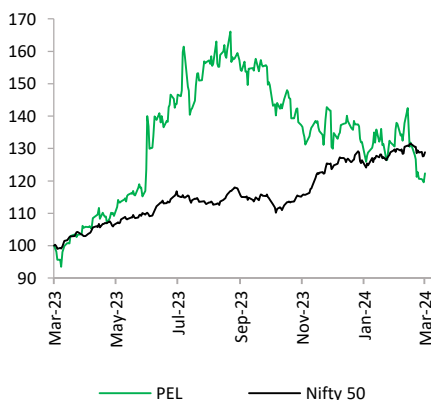
**Shareholding Pattern %**

(As on February, 2023)

Promoters	46.2
Public & Others	53.8

Stock Performance (%)	1m	6m	12m
Piramal Enterprise Ltd	-10	-20.7	22.3
Nifty	-0.11	11.6	28.9

**PEL Vs Nifty**



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Piramal Enterprises Limited is a growing, diversified Non-Banking Financial Company (NBFC) with presence in Retail and Wholesale Lending, Alternative funds and Life Insurance businesses. It is amongst the leading NBFC's in India today in terms of its size with Total Assets of INR 800.91 bn and Assets under Management (AUM) of INR 672.83 bn (excluding AIF provisions of INR 35.40 bn), as of December 31, 2023. The Company is focused on becoming more retail oriented by increasing its share of retail loans and simultaneously de-risking and gradually moderating the Wholesale 1.0 book, while building a granular Wholesale 2.0 book in a calibrated manner.

**INVESTMENT RATIONALE**

**1. Crafting a highly Scalable retail empire**

Piramal Capital and Housing Finance (PCHFL) merged with Dewan housing finance limited (DHFL) on 30th September, 2021. This has helped them to increase the retail to wholesale book mix from a largely wholesale led book to 50:50. Their retail AUM has grown by 54% YoY and 11.48% QoQ to 430.28 bn during Q3FY24, improving the retail to wholesale AUM mix to 64:36. Their **primary focus is on retail lending which will help them improve their yields.**

**2. Streamlining wholesale book 1.0 with strategy**

The company has laid down a **clear strategy to reduce their wholesale 1.0 book.** The company has been actively reducing their wholesale 1.0 book from INR 416.55 bn in Q1FY23, to INR 186.93 bn in Q3FY24, **through various means like, sale to ARC for cash & SR, organic reduction & refinancing, sale to ARC for upfront cash and sale of assets.** This has helped them to improve their asset quality substantially.

**3. Wholesale revival: Cultivating a thriving wholesale 2.0 book**

Another area of focus for PEL has been on **building granular wholesale 2.0 book,** across real estate and corporate mid-market lending. Company believes there is an **opportunity for real estate to grow in coming years.** Company has built a Wholesale 2.0 AUM across Real Estate and Corporate Mid - Market Loans worth INR 55.62 bn as of Dec-2023.

**4. Revving up growth in the Insurance Business**

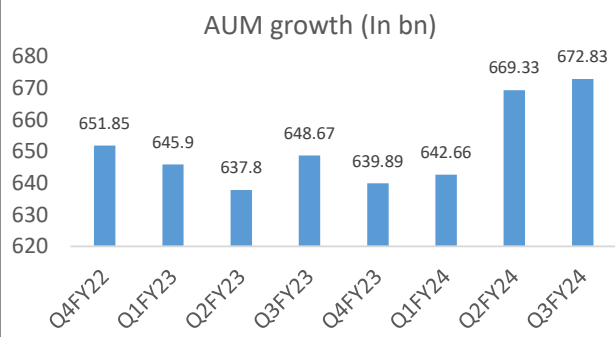
As a part of DHFL acquisition, the Company also acquired a 50% stake in Pramerica Life Insurance (PLI), which is a joint venture (JV) with Prudential International Insurance Holdings. In FY23, PLI was the **fastest growing Life Insurance company with a growth rate of 129% on the basis of overall New Business Premium.** Currently, PLI strategically focuses on acquiring customers with background from armed forces, along with Credit Life – NBFC and Credit life – MFI. **New Lines of operations in which it is entering into are: Agency, BroCA Partnerships, Banca Partnerships, and Employee Benefits which will help them to improve their business performance and drive growth.**

**OUTLOOK**

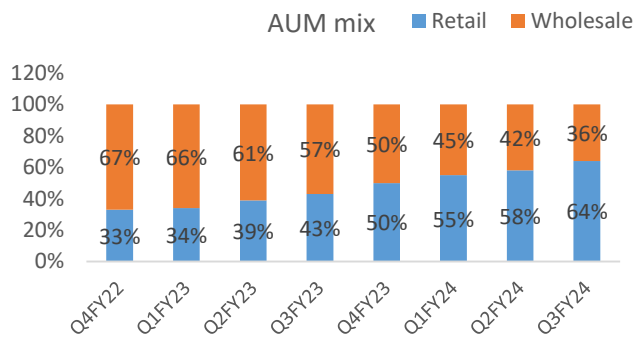
Company's focus on resolution of wholesale book 1.0 has increased, along with building a granular wholesale book 2.0. This will happen slowly and gradually and will help to further improve their asset quality. Further, with the increasing focus on retail lending, company is expected to show positive performance in coming quarters, with improvement in margins. In the near term, wholesale book 1.0 is expected to reduce via sale to ARC for upfront cash, sale to ARC on cash and SR, sale of assets or via organic reduction and refinancing and the retail to wholesale mix is expected to be 70:30. In the long term, company targets to double its total AUM to INR 1.2 lakh crore by FY2028. We also expect the monetization of Shriram Life insurance in short term. If we look at a bigger picture, company has identified its shortcomings like low ROE, high cost of funds, bad wholesale 1.0 book among others and is working to eradicate them. **We have a BUY rating on the stock, with a target price of INR 2299, based on 1.5x of FY27E ABV and INR 2966 based on residual free cash flow approach. Giving 50-50 weightage to both approaches, we arrive at a target price of INR 2632, which gives an upside of 224%.**

Story in charts

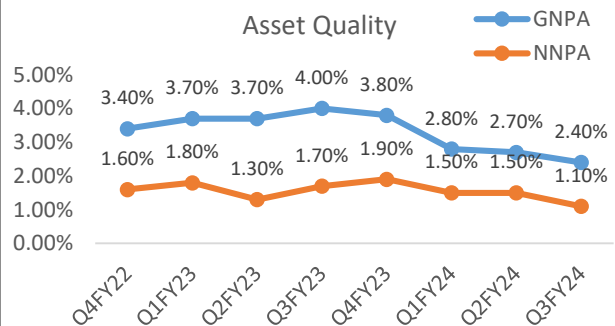
**Exhibit 2: AUM growth remains steady post DHFL acquisition, led by the growth of retail book.**



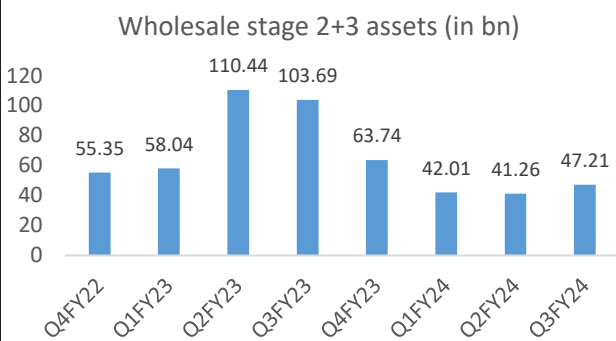
**Exhibit 3: Focus on retail book has increased, leading to the increase in retail to wholesale mix. Increasing retail book will help them increase their overall yields.**



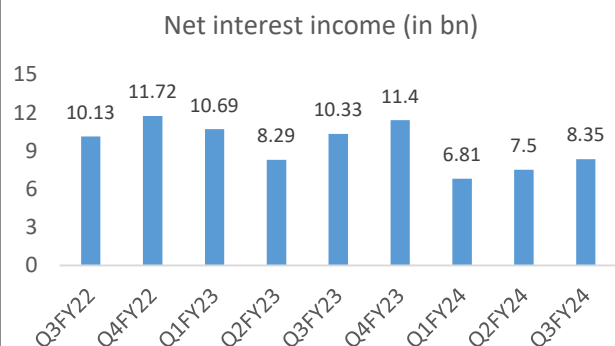
**Exhibit 4: Asset quality of the company is improving, due to the decrease in wholesale 1.0 book.**



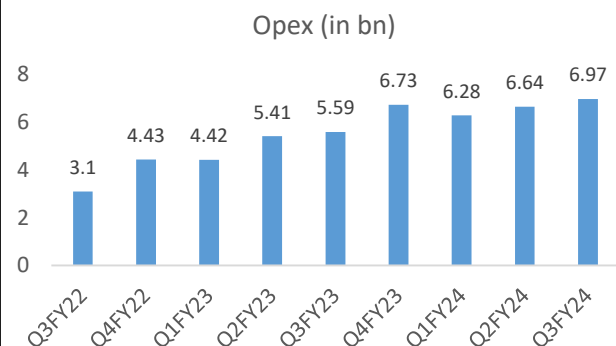
**Exhibit 5: Company's focus on resolution of wholesale book 1.0 has led to reduction of wholesale stage 2+3 assets.**



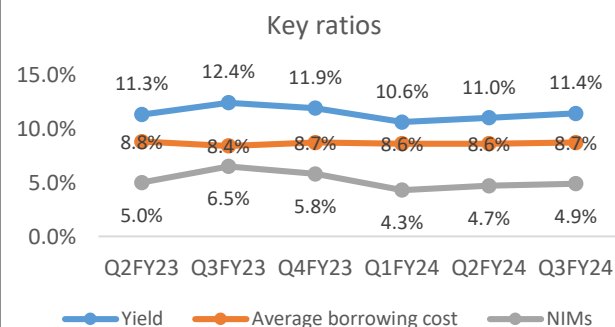
**Exhibit 6: Net interest income of the company is expected to increase, led by the increase in retail portfolio. The increase in retail portfolio will also help them increase their overall yields.**



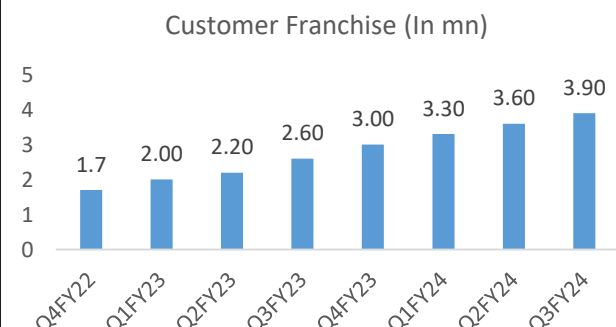
**Exhibit 7: The rising opex is due to the investment made in technology during the recent years. Benefits are expected to accrue in coming years.**



**Exhibit 8: As the retail portfolio increases, the overall yield will improve. With a stable borrowing cost, NIMs are expected to improve.**



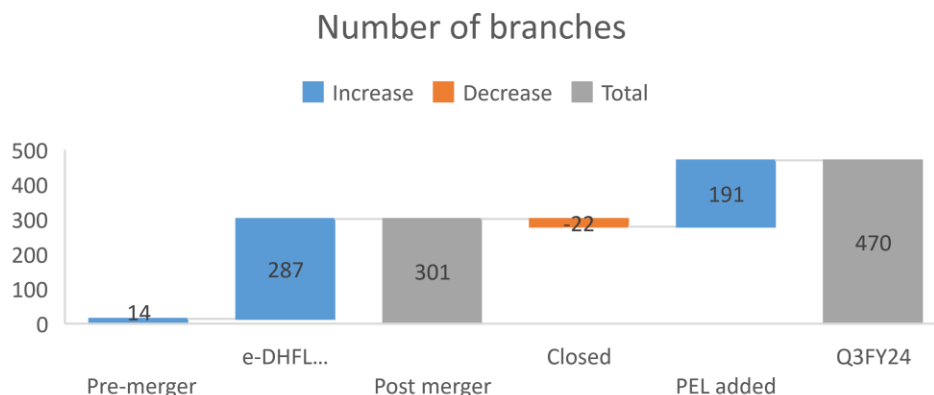
**Exhibit 9: Company's customer franchise is rising steadily and is expected to keep growing ahead, led by the cross selling opportunities from DHFL and their phygital strategy.**



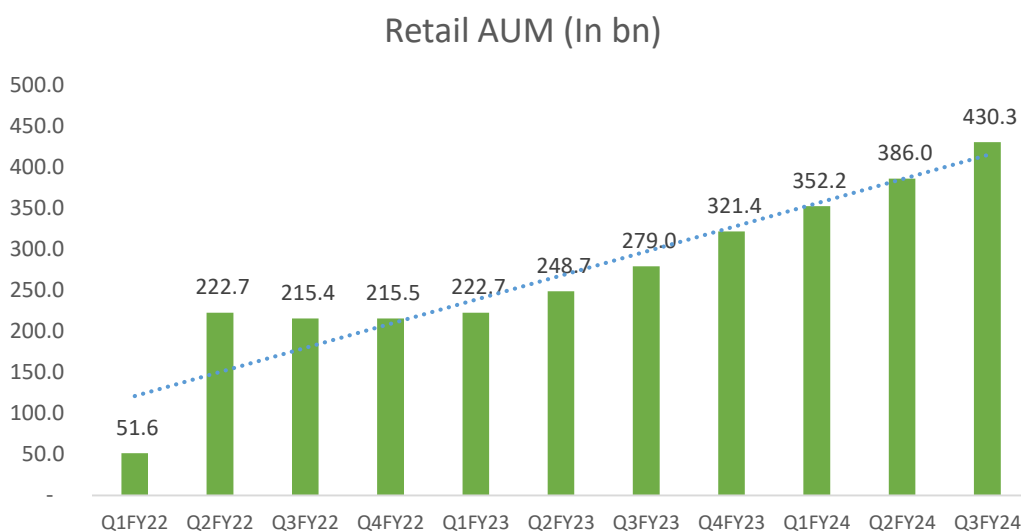
## INVESTMENT RATIONALE

## 1. Crafting a highly Scalable Retail Empire

The retail business of the company is managed by Mr. Jairam Sridharan (CEO), Mr. Jagdeep Mallareddy (CBO), Mr. Sunit Madan (COO), Mr. Saurabh Mittal (CTO) and Mr. Markendey Upadhyay (Chief data and analytics officer). Their focus on retail business has increased during the last few quarters. They merged with Dewan housing finance limited (DHFL) on 30<sup>th</sup> September, 2021 which has helped them to increase the retail to wholesale book mix from a largely wholesale led book to 50:50 mix. The mix further improved to 64:36 in Q3FY24. Their number of branches has increased substantially from 14 pre merger to 470 in Q3FY24, which will help them to grow their retail AUM substantially.



Further, PEL has **completed the integration with DHFL** during the Q2FY24. With the integration of PEL with DHFL, comes a lot of **cross selling opportunities**, which will help them achieve the retail to wholesale mix guidance of 70:30 by FY28. Their retail AUM increased from INR 39.9 bn in Q1FY22 to INR 430.3 bn in Q3FY24.

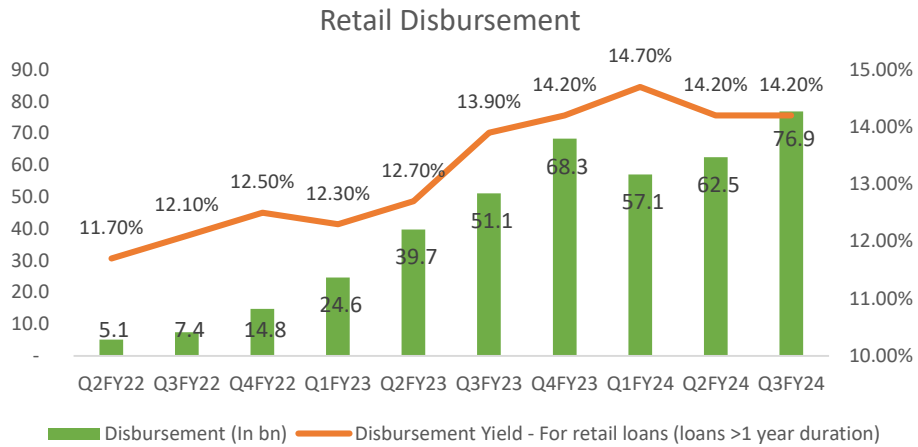


Further, as a part of their retail growth strategy, PEL has implemented a **phygital strategy**, which is a high tech + high touch strategy.

- **High Touch:** Company has 470 conventional branches, 179 microfinance branches, across 369 cities and has conducted more than 86,000 personal discussion in FY23. Out of total, >75% branches are in Tier 2/3 cities, as on March 23.

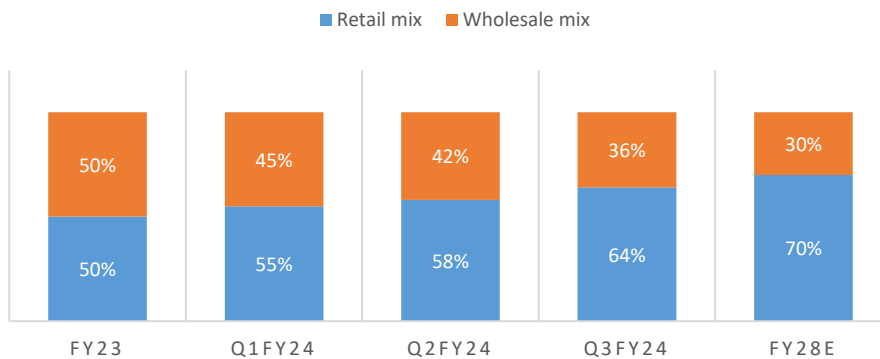
- **High Tech:** PEL has created 30+ Machine learning models across products/ processes from underwriting to recoveries. These models have significantly higher predictive power than bureau score. Further, they have 100+ automated dashboards for real time analysis.

Retail disbursement has been strong during last 2 years, since DHFL acquisition. Successful integration of PEL with DHFL, along with its phygital strategy has helped the company to generate strong disbursements in retail business. It increased from INR 2 bn in Q1FY22 to INR 76.9 bn in Q3FY24. Further, disbursement yield for Q3FY24 stood at 14.2%.

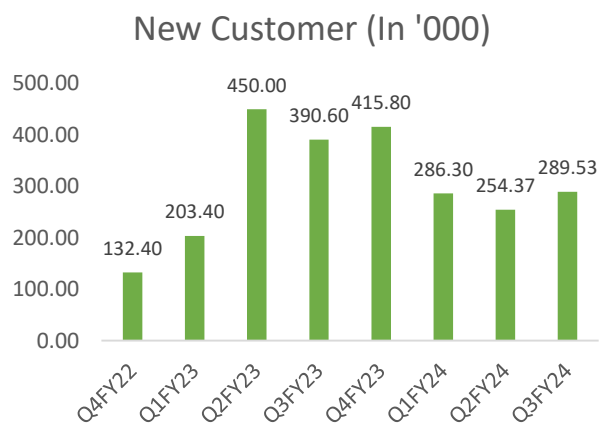
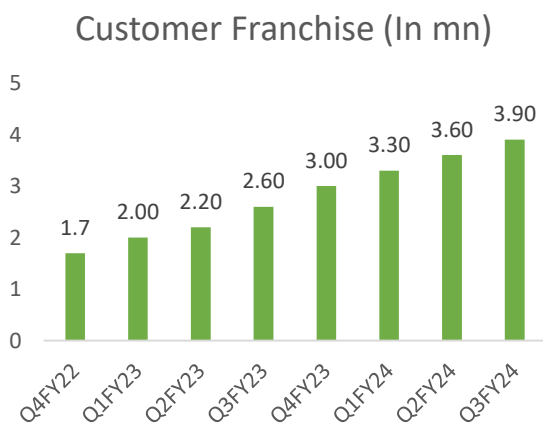


The company’s retail to wholesale mix for Q3FY24 stood at 64:36. It is expected to increase to 70:30 by FY28. The increase of retail mix in the portfolio will help the company to improve its yields and build a more granular book.

### RETAIL TO WHOLESALE MIX

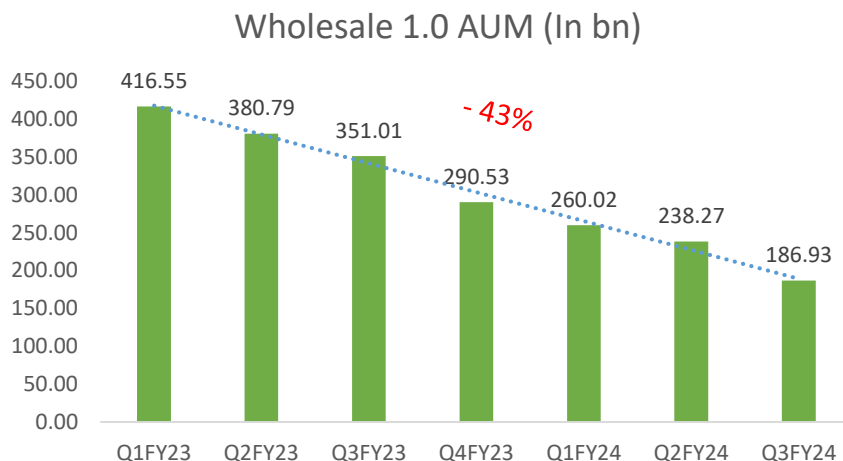


The customer franchise exhibits persistent robustness, consistently growing as new customers are consistently on boarded on a quarterly basis. It has grown from 1.7 mn in Q4FY22 to 3.9 mn in Q3FY24.



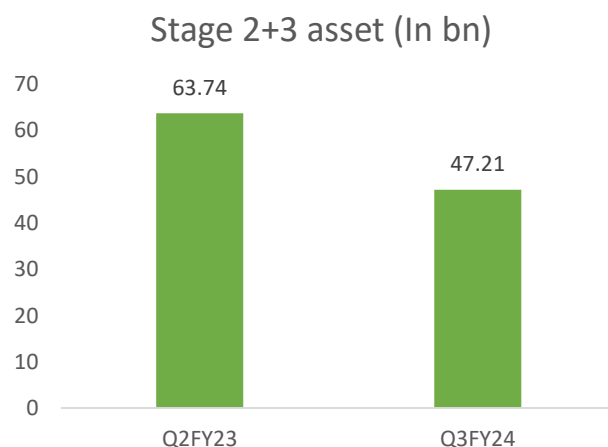
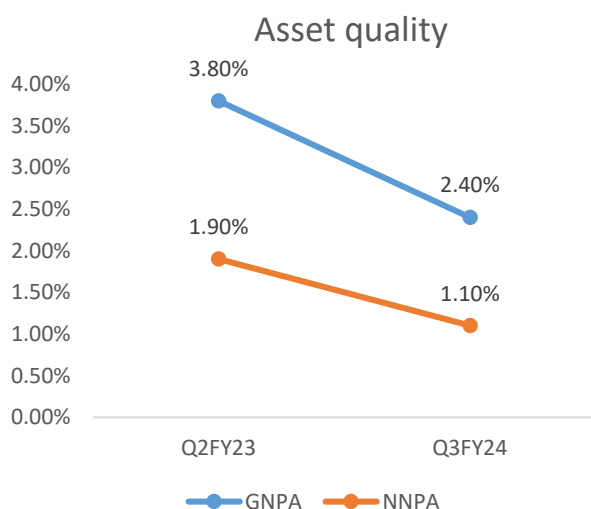
## 2. Streamlining wholesale book 1.0 with strategy

The wholesale 1.0 book posed substantial risk attributed to its considerable ticket size, resulting in elevated asset quality deterioration stemming from defaults. The company has laid down a **clear strategy to reduce their wholesale 1.0** book, which has starting improving their asset quality. They have reduced their wholesale 1.0 AUM from INR 416.55 bn in Q1FY23 to INR 186.93 bn in Q3FY24.



The scaling down of wholesale book 1.0 is achieved by either **sale to ARC for upfront cash, sale to ARC on cash and SR, sale of assets or via organic reduction and refinance**. In Q1FY24, they have reduced their wholesale 1.0 book from INR 290.53 bn to INR 260.02 bn, **through sale to ARC for cash & SR**. In Q2FY24, the book further reduced to INR 238.27 bn, predominantly as a result of recoveries made during the quarter. The wholesale 1.0 book further reduced to INR 186.93 bn, in Q3FY24.

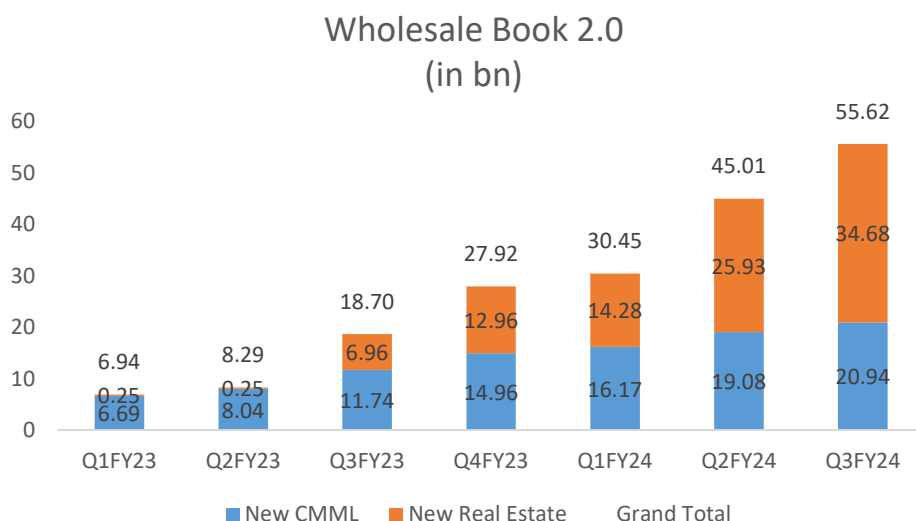
This has helped them to improve their asset quality substantially. In Q3FY24, they have reported improvement in asset quality as GNPA declined by 130bps YoY at 2.4% and NNPA improved by 60bps YoY at 1.10%. The improvement in asset quality was driven by recoveries made from their wholesale 1.0 portfolio.



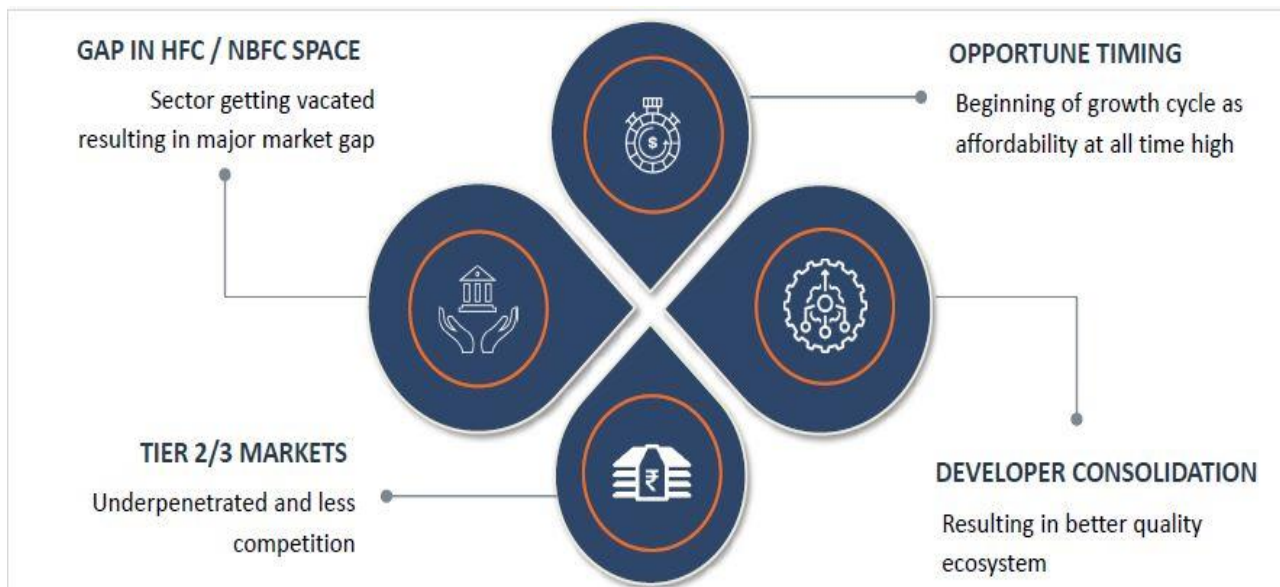
Company generated a net cash realization of INR 9.09 bn from wholesale 1.0 portfolio. Company concluded 2 ARC transactions in Q3FY24 with total deal value of INR 7.75 bn under 15:85 structure. SR's issued worth INR 6.60 bn at 51% mark down to face value of underlying assets.

### 3. Wholesale revival: Cultivating a thriving wholesale 2.0 book

While the company’s focus has been on reducing the Wholesale 1.0 book, they have been simultaneously working on **building granular wholesale 2.0** book. The elevated exposure associated with the considerable ticket sizes within the wholesale 1.0 book resulted in heightened risk, directly contributing to the deterioration of asset quality. To mitigate this risk, the company introduced a wholesale 2.0 book characterized by **reduced ticket sizes, aimed at enhancing granularity** within the portfolio structure. The wholesale 2.0 book **is built across real estate and corporate mid-market lending**. The wholesale 2.0 AUM has increased from INR 6.94 bn in Q1FY23 to INR 55.62 bn in Q3FY24.



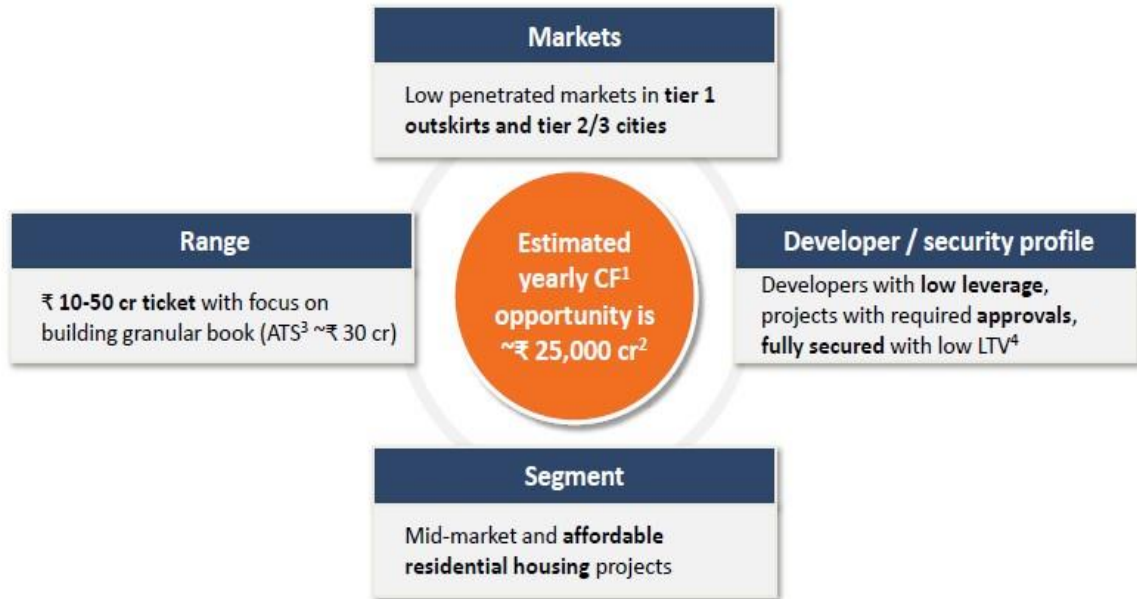
Company believes there is an **opportunity for real estate to grow in coming years**. Few factors leading to revival in real estate lending industry:



Lending in real estate industry is underpenetrated and has less competition, owing to the risk involved in the industry. PEL intends to fill the gap in this segment.

### New Real Estate Loans

**Company's strategy for real estate** is to focus on mid-market residential projects in tier 1 cities, as well as expanding into top 15-20 tier 2/3 cities by lending to strong local developers. **Small Developer Finance (SDF)** offers various opportunity for the company to build their Wholesale 2.0 book:



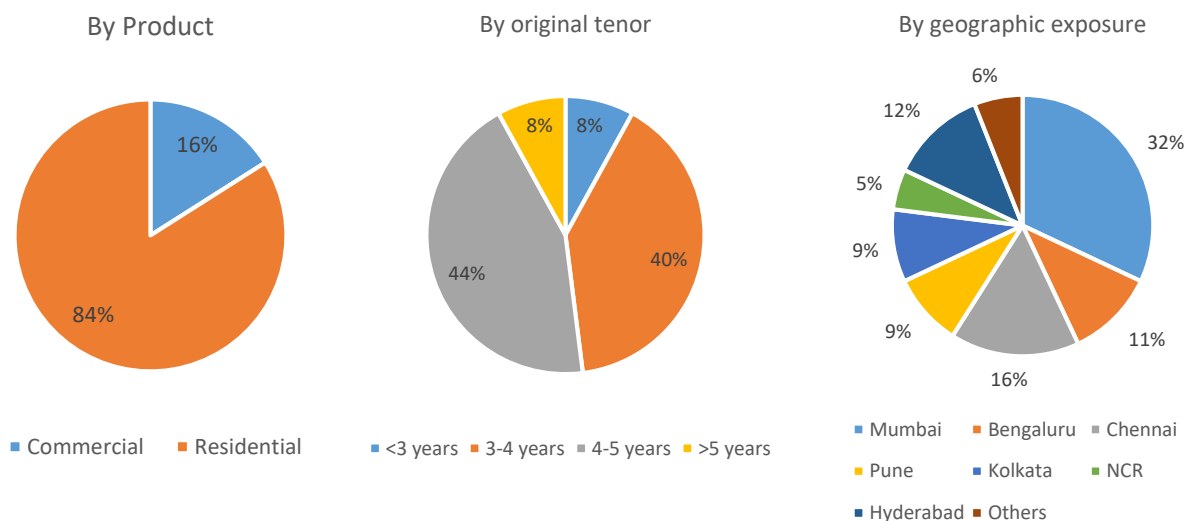
PEL has tactically established a dedicated team within its wholesale division to capitalize on opportunities within this specific market segment.

Average ticket size –  
INR 1.57 bn

Average yield –  
13.9%

Average loan tenor –  
4.5 years

The company is strategically expanding its real estate developer finance portfolio to encompass a diversified and finely detailed range of investments. This includes exposure to specific markets within both tier 1 and tier 2 cities. The breakdown of the new real estate loan portfolio by product type, tenure, and geographical distribution is outlined as follows:





### New corporate mid-market lending

Another product in PEL's portfolio pertains to **corporate mid-market lending**. In case of Corporate mid – market lending (CMML), PEL is focusing on smaller ticket, corporate non-RE loans. Few key focus areas for this segment include:



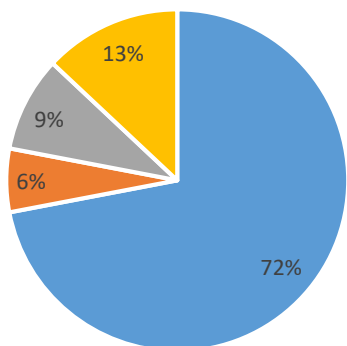
Average ticket size –  
INR 0.57 bn

Average yield –  
12.6%

Average loan tenor –  
3.1 years

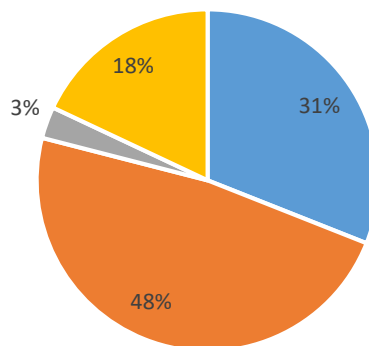
The distribution of the CMML (corporate mid-market lending) portfolio based on tenure and credit ratings is outlined as follows:

By original tenor



■ <3 years ■ 3-4 years ■ 4-5 years ■ 5-7 years

By Ratings



■ A and better ■ BBB- upto A- ■ BB+ or below ■ Not rated



## 4. Revving up growth in the Insurance Business

The DHFL acquisition included a 50% stake in Pramerica Life Insurance (PLI), a joint venture with Prudential International Insurance Holdings. PLI specializes in serving customers within the Indian armed forces, contributing significantly (68%) to its Annual Premium Equivalent (APE). With a customer base of 3.43 million, it boasts an extensive distribution network of 14,857 agents and 130 branches across 28 states/union territories in India. In FY23, PLI emerged as the fastest-growing life insurance company, achieving a remarkable 129% growth rate in New Business Premium (NBP). It reported a Gross Written Premium of INR 14.95 billion and an Embedded Value of INR 19.31 billion as of March 2023. The company maintains a strong financial position, evidenced by a robust balance sheet and a Solvency Ratio of 369% as of March 2023. PLI aims to fuel the growth of this business in the forthcoming years. Notably, its Claims Paid ratio for FY 2023 stood at an impressive 98.8%, while the Persistency Ratio (13th month) remained stable at 78% over the last five years.



PLI's strategic focus lies in customer acquisition from armed forces backgrounds, along with ventures into Credit Life – NBFC and Credit Life – MFI segments.

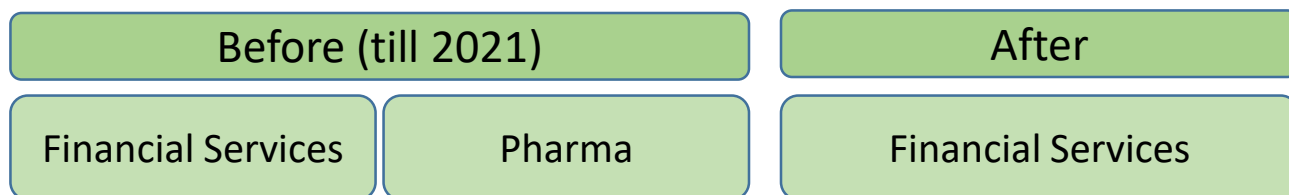


The company is also diversifying into new lines of operations such as Agency, BroCA Partnerships, Banca Partnerships, and Employee Benefits, foreseeing enhancements in business performance and sustained growth.



Pramerica Life, operating under the brand, Prahri, holds the top market share in the defense segment. With a reinforced position in existing core operations, the company is actively broadening its retail distribution channels. This involves scaling up agency and BroCa partnerships while initiating Bancassurance services.

## About the company



Piramal Enterprises Limited is a part of the Piramal Group, which is a diversified global business conglomerate with a **significant presence in pharmaceuticals and financial services**. The company has a rich history of growth and diversification. It was founded in 1988 by Ajay Piramal. In 1988, he took over Nicholas Laboratories Limited, which was primarily focused on the pharmaceutical business. It marked the beginning of the Piramal Group's journey. Under his leadership, the company expanded its horizons beyond pharmaceuticals, diversifying into various sectors over the years.

Piramal Enterprises continued its expansion and diversification through strategic acquisitions and collaborations. In the pharmaceutical sector, it strengthened its pharmaceuticals division by **selling its domestic formulations business for \$3.8 bn, to Abbott in 2010** and then using the proceeds to **acquire a stake in Vodafone India in 2011 for INR 58.64 bn**, thereby reiterating its commitment to diversified business interests.

The company **entered the financial services segment in 2011 and started its NBFC operations in 2012**. They made significant strides in the financial services sector, particularly in areas like lending, investments, and real estate funding. The company's financial services division has grown to encompass various aspects of lending and investments, including real estate financing and corporate financing. **In 2014, they invested a total of INR 45.83 bn in Shriram group of companies.**

In the healthcare information management sector, Piramal Enterprises has ventured into areas such as healthcare analytics and data management, providing solutions to healthcare organizations for better decision-making and improving patient outcomes. They **acquired Decision Resourced Group (DRG) for \$650 mn in 2012**. **Later, in 2014, they exited their Vodafone investment at INR 89 bn**, against the investment of INR 58.64 bn made in 2011.

They further **sold its healthcare insights and analytics business Decision Resources Group (DRG) to Clarivate Analytics for \$950 mn in 2020**. In the same year, **Carlyle group made an equity investment of INR 35.23 bn, for 20% stake in Piramal Pharma**. In 2021, they transformed their financial services segment with **completion of DHFL acquisition for consideration of INR 342.50 bn**.

## After 2021

The **pharmaceutical division of Piramal Enterprise Limited got demerged in August 2022**. The demerger from PEL will empower both, Piramal Pharma Ltd and Piramal Enterprise Ltd, to independently pursue its growth strategies with sharper focus and identity.

PEL had acquired DHFL in 2021. **They successfully completed integration with DHFL within 1 year** of its acquisition. It has helped them to scale up their retail business. It is further expected to improve their retail to wholesale AUM mix to 70:30 by FY28.

They **sold their investment (stake of 8.3%) in Sriram Finance** in June 2023 for INR 48.2 bn, which has helped them to build their capital base. They also **completed buyback of INR 17.5 bn** in September 2023.

## Piramal Enterprise Ltd

### Lending Business

Retail  
lending

Wholesale  
lending

Unsecured,  
Used Car,  
LAP  
&  
Housing

Real Estate  
&  
Corporate mid-  
market lending

### Other business

Life  
Insurance

Alternatives

Investment  
in Sriram

JV with  
prudential  
Int.  
Insurance  
Holdings

Piramal  
Credit Fund  
and  
India  
Resurgence  
Fund

General  
Insurance,  
Life  
Insurance  
and  
Investmnt  
holdings

PEL operates a diversified financial services segment that includes lending and non-lending activities. Within lending, they focus on both retail and wholesale loans. Retail lending comprises unsecured loans, used car financing, loans against property (LAP), and housing finance. Wholesale loans consist of real estate financing and corporate mid-market lending. PEL's strategic approach involves expanding the retail loan portfolio while developing a healthy wholesale 2.0 book, while actively reducing exposure in the wholesale 1.0 book. Their target is to achieve a retail to wholesale loan mix of 70:30 by the financial year 2028, currently standing at 58:42.

Other business in which PEL operates into are: Life insurance, Alternatives business and investments in Sriram group.

#### Life insurance

As a part of DHFL acquisition, the Company had acquired a 50% stake in Pramerica Life Insurance (PLI), which is a **joint venture (JV) with Prudential International Insurance Holdings**. PLI is an industry leader in the defense segment, which contributes 68% to PLI's Annual Premium Equivalent (APE). It has a customer base of 3.43 Million and a vast distribution network, comprising of 14,857 agents and 130 branches across 28 states / union territories in India.

#### Alternatives

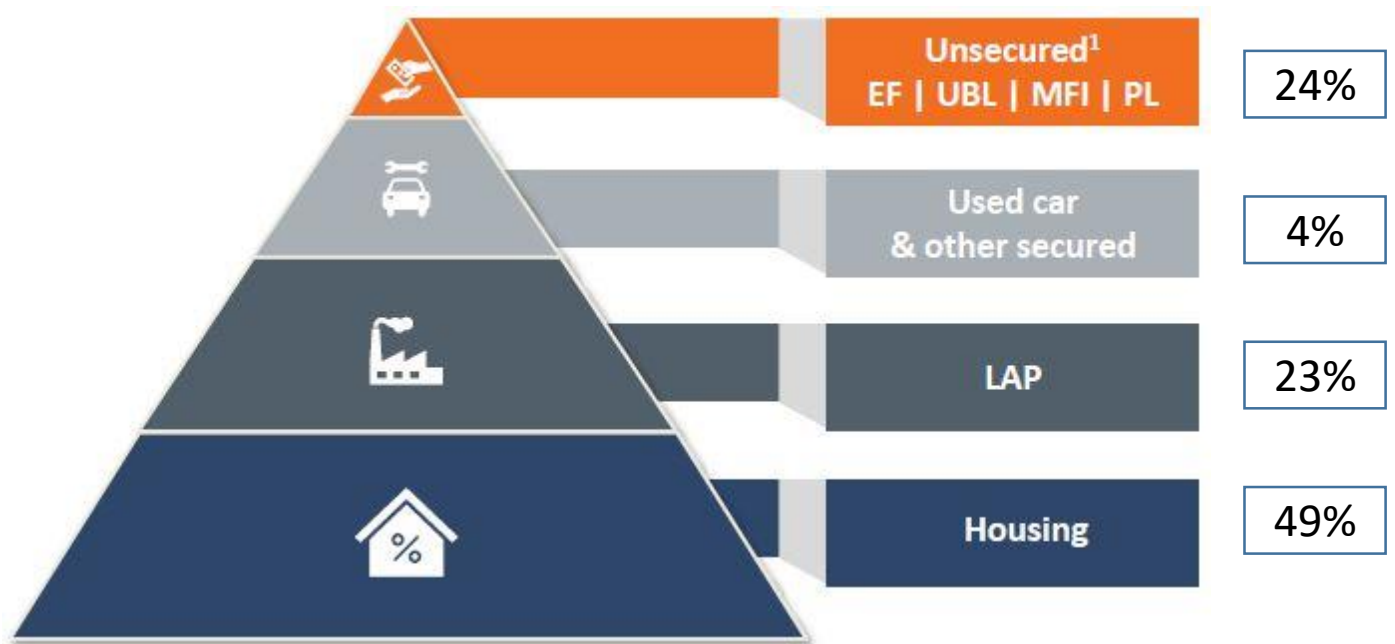
Their alternatives platform is a fund management business with long-standing partnerships with marquee investors and committed capital of \$1 billion. The fund management business provides customized financing solutions to high-quality corporates through, '**Piramal Credit Fund**', a performing, sector-agnostic credit fund with capital commitment from CDPO; and '**India Resurgence Fund**' or '**IndiaRF**', a distressed asset investing platform with Bain Capital Credit, which invests in equity and/or debt across non-real estate sectors.

#### Investment in Sriram group

They owned 8.34% in Shriram Finance Limited which was sold in June 2023 for INR 48.2 bn. They also owned 20% stake in each of the three holding companies namely Shriram GI Holdings Private Limited, Shriram LI Holdings Pvt Limited and Shriram Investment Holdings Limited. Company recently announced the sale of their stake in Shriram Investment Holdings for INR 14.4bn against the carrying value of INR 5.69 bn. The sale is expected to be completed by Q4FY24. Pursuant to restructuring of Shriram group, they effectively own 13.33% in Shriram General Insurance Company Limited and 14.91% in Shriram Life Insurance Company Limited.

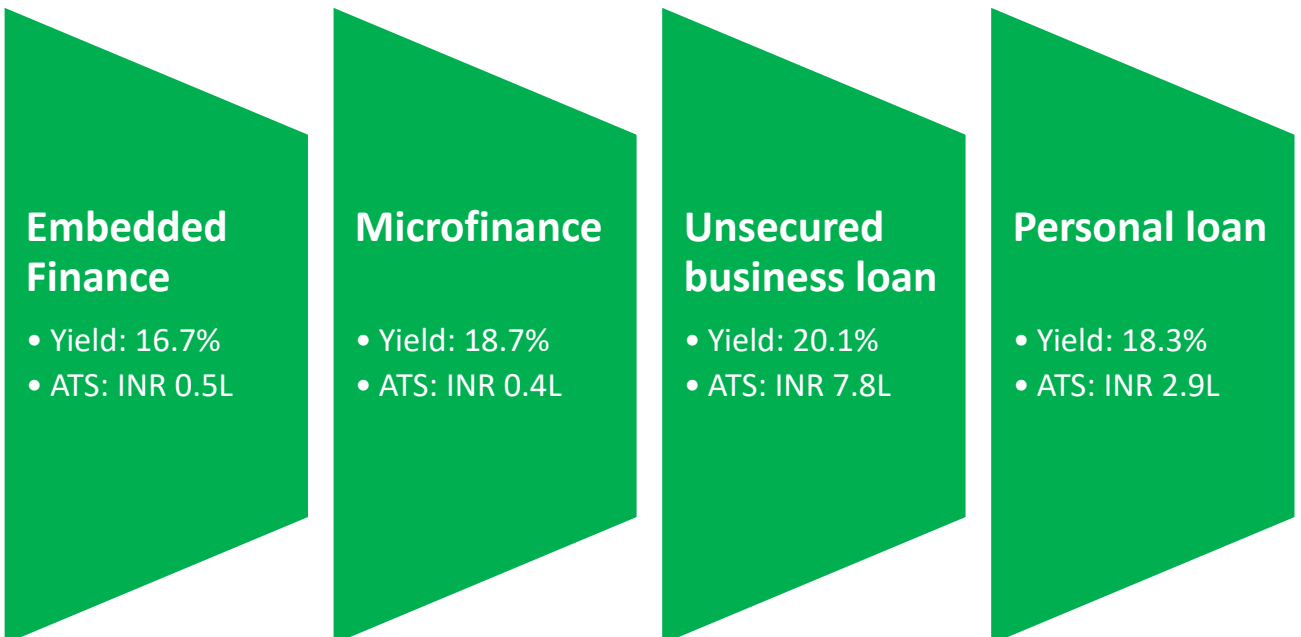
## Retail product offerings

AUM split of Q3FY24



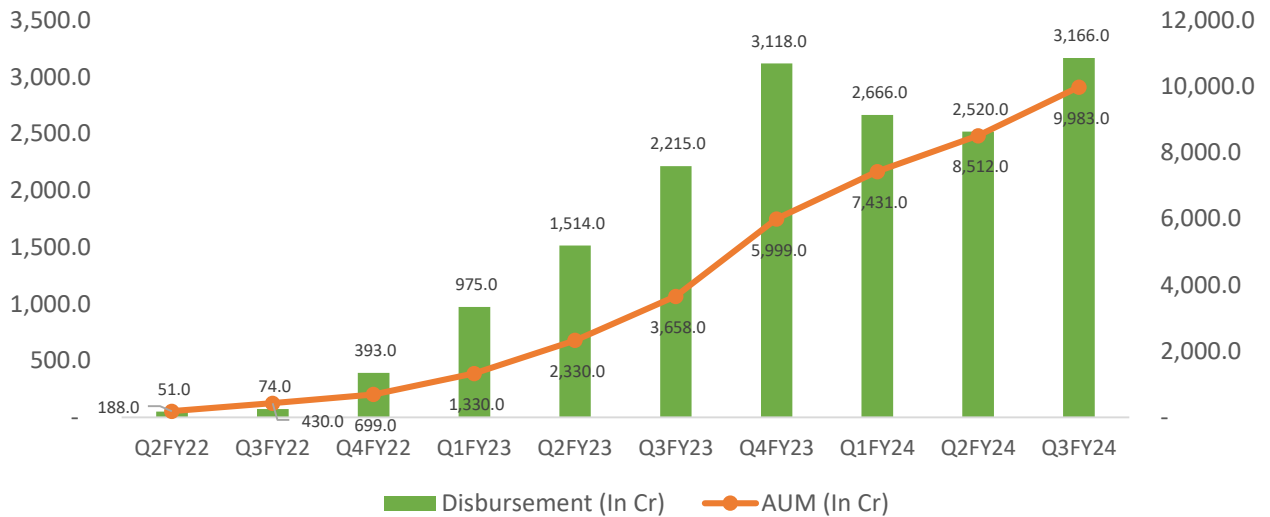
Note: EF: Embedded Finance, UBL: Unsecured Business Loan, MFI: Microfinance, PL: Personal Loan

### 1. Unsecured business overview



## Unsecured business (continued)

Portfolio growth

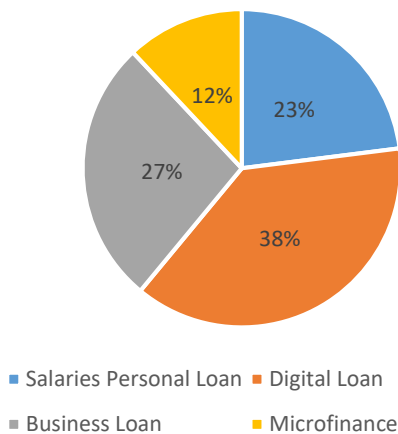


The unsecured business AUM of the company have demonstrated an impressive growth trajectory, soaring from INR 0.51 billion in Q2FY22 to INR 99.83 billion in Q3FY24, a significant leap within a span of two years subsequent to the acquisition of DHFL in Q2FY22. This strategic acquisition has notably facilitated an expansive market reach for the company across diverse regions in India.

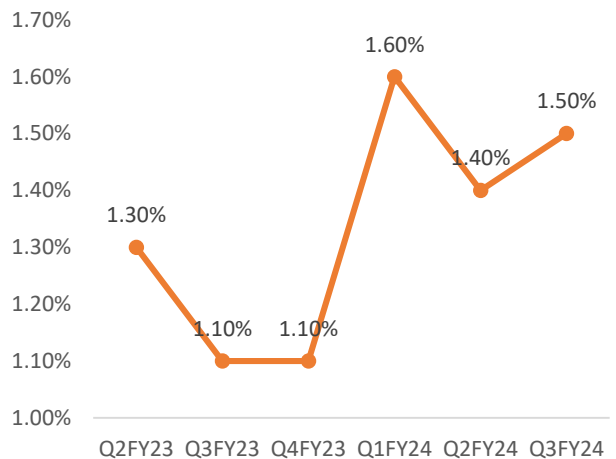
With a current operational footprint encompassing 470 branches strategically dispersed across various regions, the company has strategically positioned more than 75% of these branches in tier 2 and tier 3 cities, as on March 23. This deliberate geographical distribution has notably contributed to an upsurge in the company's retail business. Specifically, the unsecured business constitutes a 24% of the overall retail AUM, contributing substantially to the company's portfolio.

Notably, the company's robust expansion efforts and focus on tier 2/ tier 3 cities have bolstered its retail presence, thereby augmenting its unsecured business segment. Moreover, the company's commendable performance is reflected in its low Non-Performing Assets (NPA), with the 90+ days past due (dpd) standing at a commendable 1.5% for Q3FY24. This signifies the company's prudent risk management practices and the quality of its lending portfolio.

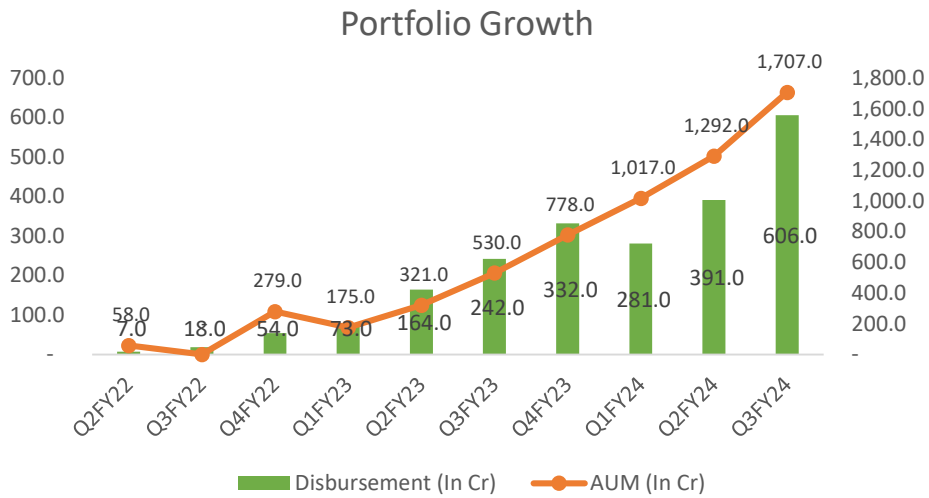
AUM mix product wise



90+ DPD delinquency



## 2. Used car loans/ Other secured loans



This segment has exhibited robust growth in its Assets Under Management (AUM). The company's AUM escalated significantly from INR 0.58 billion in Q2FY22 to INR 17.07 billion in Q3FY24. This substantial expansion is attributed to the company's expanding footprint throughout India, coupled with its strategic emphasis on digitization, resulting in an augmented retail portfolio.

60% lending in tier 2/3 cities

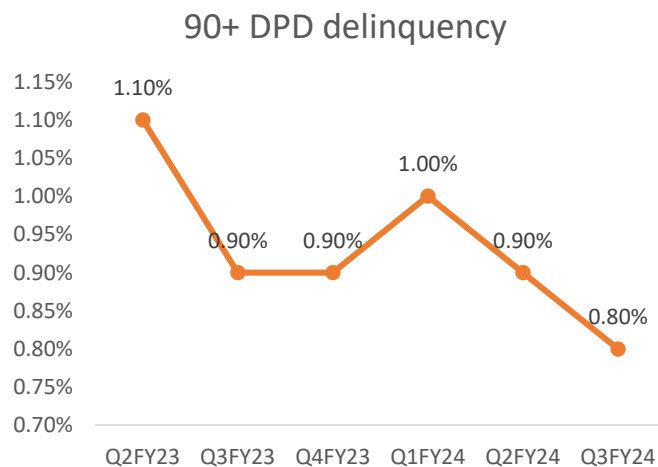
Average ticket size – INR 6 lac

Average LTV – 77%

Average CIBIL score – 743

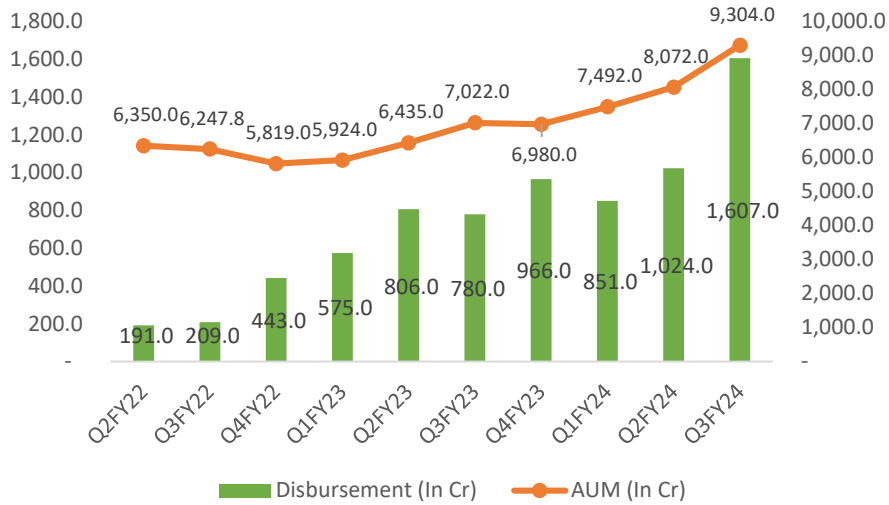
Disbursement yield – 15.1%

The delinquency rate for accounts exceeding 90 days past due continues to maintain a level below 1%, showcasing robust asset quality.



### 3. Secured MSME (LAP)

Portfolio Growth



The AUM for the portfolio grew from INR 63.5 billion in the Q2FY22 to INR 93.04 billion in Q3FY24. During this time, there was a disbursement of INR 16.07 billion. The secured Micro, Small, and Medium Enterprises (MSME) loans against property (LAP) make up 23% of the overall retail AUM.

65% lending in tier 2/3 cities

Average ticket size – INR 23 lac

Average LTV – 45%

Average CIBIL score – 751

Disbursement yield – 12.6%

The rate of delinquency for accounts that are more than 90 days past due remains consistently below 1%, indicating strong asset quality and a reliable repayment pattern.

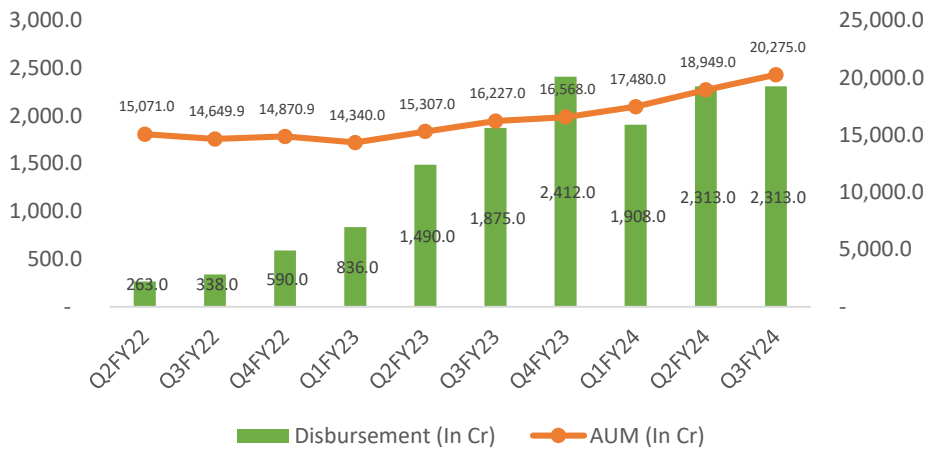
90+ DPD delinquency





## 4. Housing loans

Portfolio Growth



With a disbursement yield of 11.2%, AUM of housing loans stood at INR 202.75 bn, during the Q3FY24, which constitutes 49% of the total retail AUM. Company has made disbursement of INR 23.13 bn in Q3FY24. Disbursement is expected to decrease going forward as the disbursement for higher yielding product increases.

68% lending in tier 2/3 cities

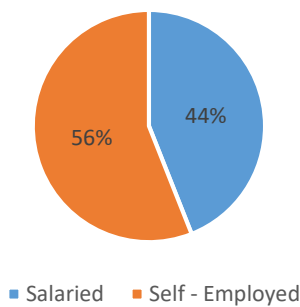
Average ticket size – INR 19 lac

Average LTV – 59%

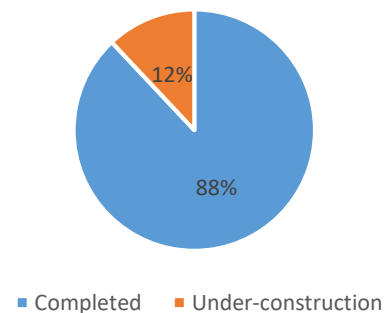
Average CIBIL score – 751

Disbursement yield – 11.2%

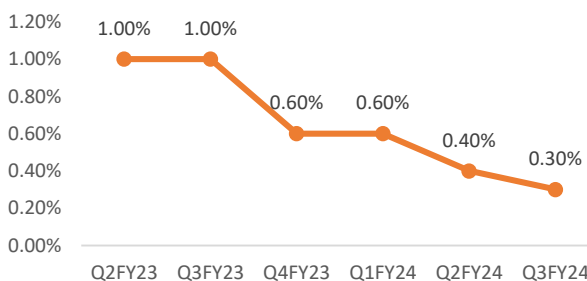
Breakup of AUM by customer type



Breakup of AUM by stage of construction



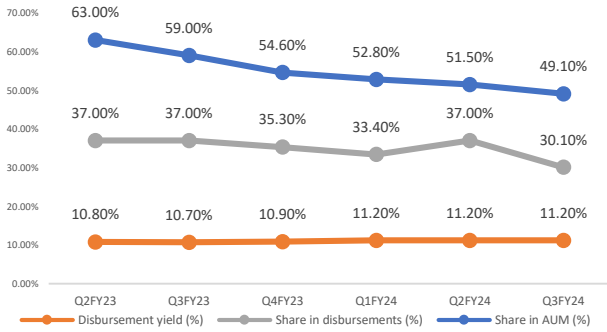
90+ DPD delinquency



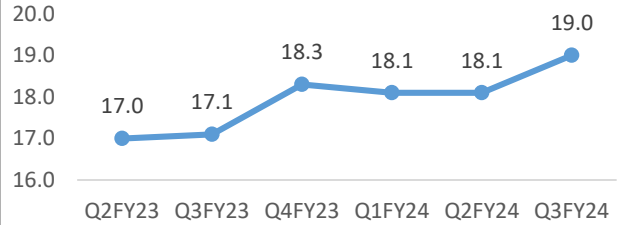
The 90+ DPD delinquency for housing loan has been decreasing since the past few quarters and is expected to remain below 1%. This will help to maintain the asset quality of the housing loan book portfolio.

**Product wise Comparison**

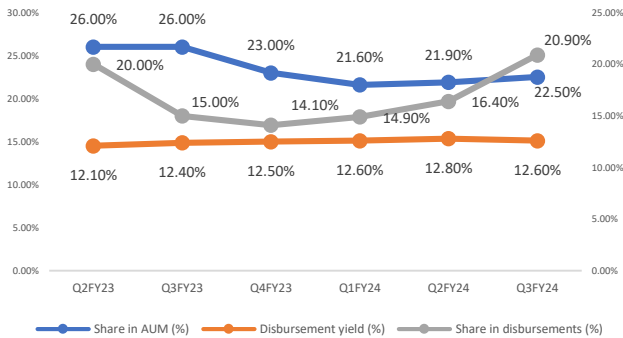
**Housing Loans** – It constitutes to 49.1% of the total retail AUM. The share in AUM is declining since past few quarters due to its low yield as compared to other retail products. As it reduces further, company’s overall yield will improve.



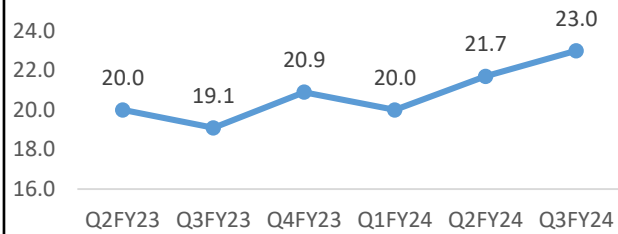
Average disbursement ticket size (INR Lakh)



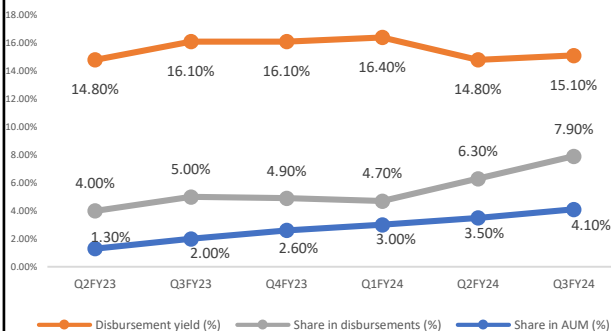
**Secured MSME (LAP)** – Contributes to 22.5% of the retail AUM. Its share in disbursements has seen a increasing trend at 20.9% in Q3FY24. As the average ticket size increases, its share in disbursement is expected to increase.



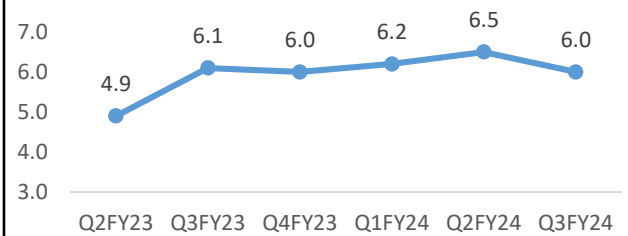
Average disbursement ticket size (INR Lakh)



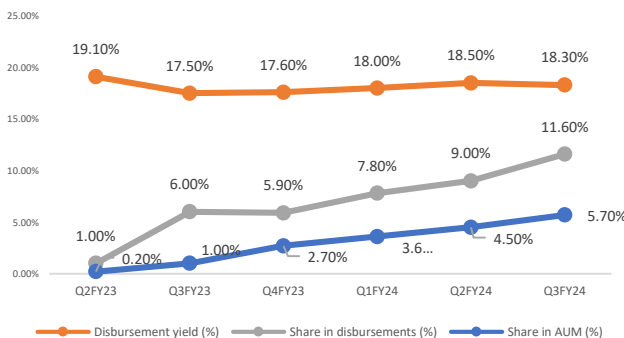
**Pre - owned car loans** – With a higher disbursement yield of 15.1%, it constitutes to only 4.1% of the total retail AUM. We have seen an uptick in its share of disbursement from 6.3% to 7.9% QoQ. Further increase in its disbursements will improve yields



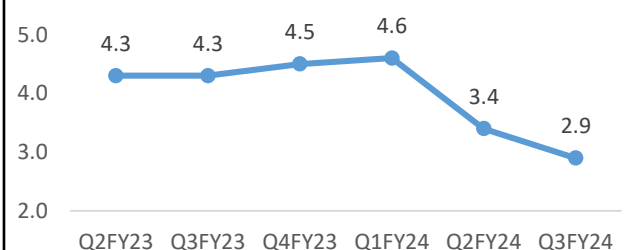
Average disbursement ticket size (INR Lakh)



**Salaried Personal loans** – Average ticket size has been declining since past 2 quarters, despite which its share in disbursements is increasing.

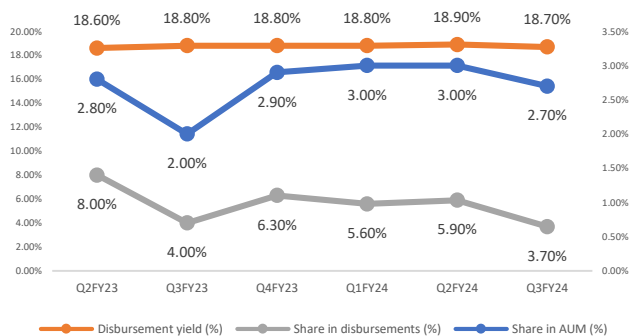


Average disbursement ticket size (INR Lakh)

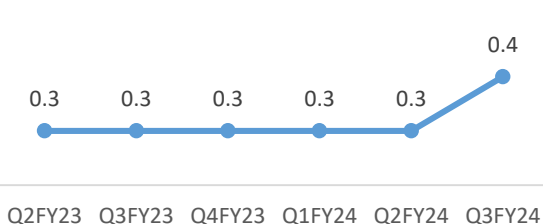


**Unsecured Loans**

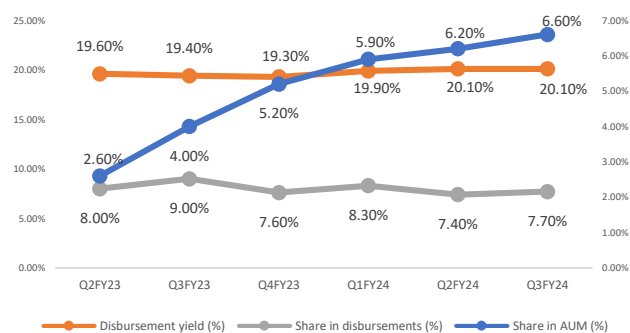
**Microfinance loans** – We have seen an increase in average ticket size in the recent quarter, despite which its share in disbursement has decreased.



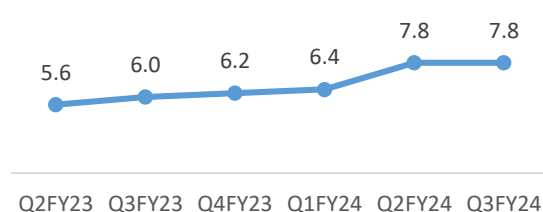
Average disbursement ticket size (INR Lakh)



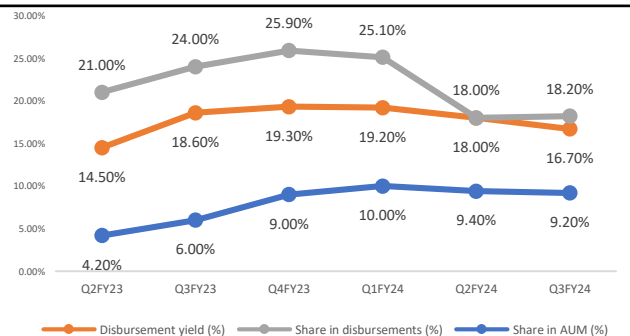
**Unsecured Business loans** – With a highest yield of 20.1%, it contributes to only 6.6% in total retail AUM. Its share in AUM has been increasing since past few quarters and is expected to increase further. It will help to increase overall yields.



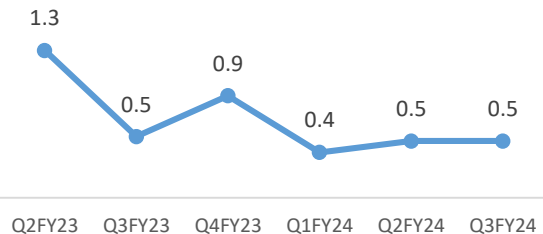
Average disbursement ticket size (INR Lakh)



**Digital loans** – With the increasing focus on digitalisation, its share in disbursement is expected to increase. As the disbursement increases, the overall yield will also increase.



Average disbursement ticket size (INR Lakh)



In the current scenario, PEL operates a housing-focused retail portfolio, comprising 49.1% of its retail AUM as of Q3FY24, with lowest disbursement yield of 11.2%. Additionally, Loan Against Property constitutes 22.5% of the retail AUM, offering a disbursement yield of 12.6%. However, products such as used car loans and salaried personal loans, despite their higher disbursement yields of 15.1% and 18.3% respectively, only contribute to 9.8% of the retail AUM.

As the proportion of these higher yielding products increases within the retail AUM mix, there is an anticipated improvement in the average yield, which subsequently enhances Net Interest Margins (NIMs). Notably, the share of used car loans in AUM has risen from 1.3% in Q2FY23 to 4.1% in Q3FY24, accompanied by an uptick in the average ticket size from INR 4.9 lakh to INR 6 lakh. This trend is expected to persist and potentially strengthen in the future.

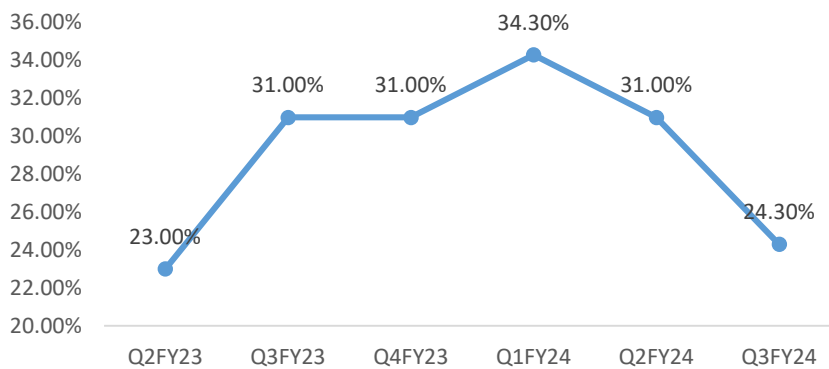
## Retail product category wise details – Q3FY24

Product Segments	Products	Average disbursement ticket size (INR Lakh)	Disbursement yield (%)	Share in disbursements (%)	AUM Yield (%)	Share in AUM (%)
Housing	Affordable housing	19	11.2%	30.1%	11.4%	49.1%
	Mass affluent housing					
	Budget housing					
Secured MSME (LAP)	Secured business loan	23	12.6%	20.9%	12.7%	22.5%
	LAP					
	LAP plus					
Other secured	Pre - owned car loans	6	15.1%	7.9%	15.0%	4.1%
Unsecured	Salaried Personal loans	2.9	18.3%	11.6%	17.7%	5.7%
	Microfinance loans	0.4	18.7%	3.7%	18.8%	2.7%
	Unsecured Business loans	7.8	20.1%	7.7%	20.0%	6.6%
	Merchant BNPL	0.5	16.7%	18.2%	17.4%	9.2%
	Digital Purchase finance					
	Digital personal loans					
Total/ Weighted average		12.3	14.20%	100%	13.20%	100%

## Optimal Financial Health: Empowering Growth with a Diversified Borrowings Profile and Robust Capital Ratios

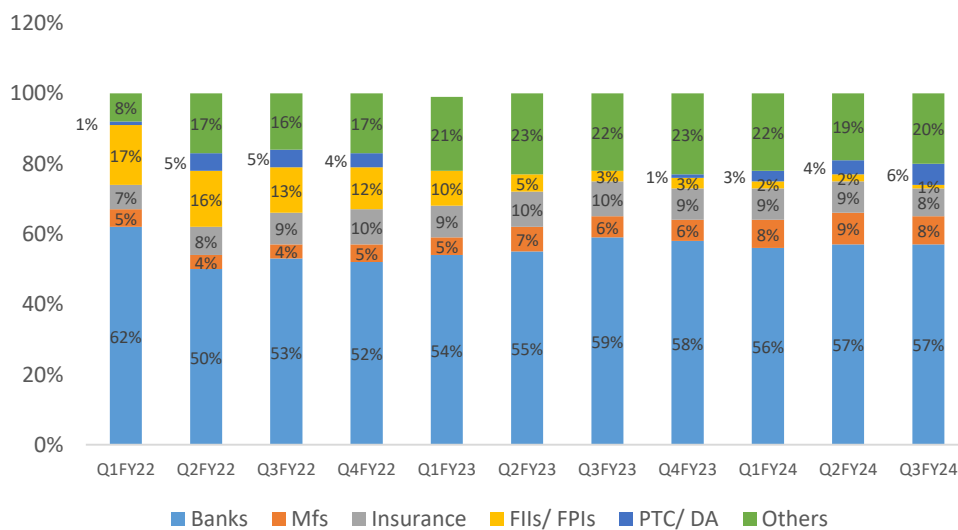
PEL is adequately capitalized with a capital adequacy of 24.3% in Q3FY24. Company’s capital adequacy declined from 31% to 24.3% on a QoQ basis, on account of AIF provision created by the company. The RBI had issued a new circular on treatment of AIF investments by banks and NBFCs in the month of December, pursuant to which a provision of INR 35.4 bn was created by PEL. Excluding the impact of these provisions, Q3FY24 CRAR would have been 28.4%. Company recently announced the sale of their stake in Shriram Investment Holdings for INR 14.4bn against the carrying value of INR 5.69 bn. The sale is expected to be completed by Q4FY24. This will help them to further strength their balance sheet.

Capital adequacy ratio

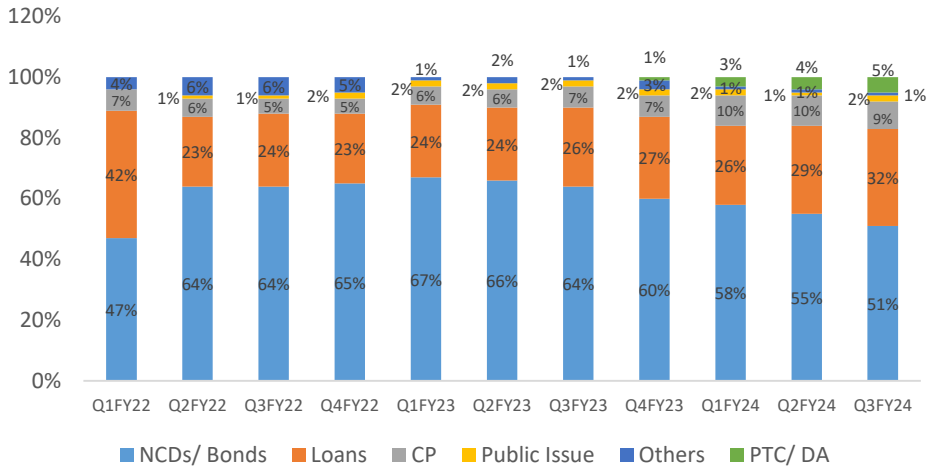


PEL exhibits a diversified borrowing profile, with a notable reliance on banks, constituting 57% of its lender base. This diversity extends across multiple funding sources, with non-convertible debentures (NCDs) comprising the largest share at 51%, followed by banks at 32%, commercial paper at 9%, public issues at 2%, and other sources at 6%. However, it's worth noting a declining trend in the predominance of NCDs over the past year.

Borrowings mix - By lender

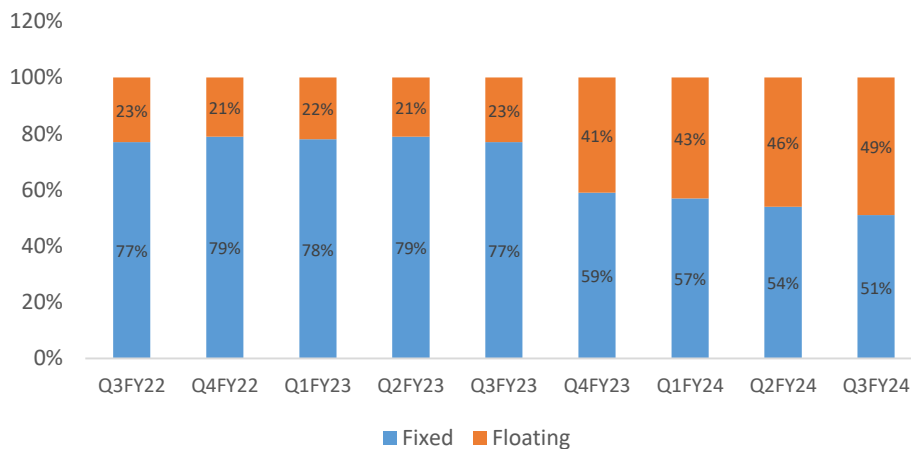


### Borrowings mix - By product



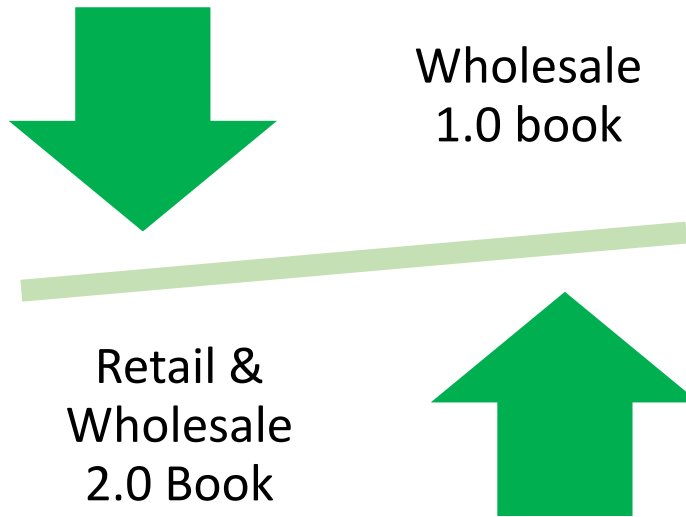
The shift in PEL's borrowing mix towards bank borrowings was primarily driven by prevailing interest rate trends influenced by the economic environment. This strategic move allowed it to effectively lower the cost of borrowing. PEL implemented a strategy to decrease its fixed rate liabilities, which was at 77% in Q3FY22, to 51% by Q3FY24.

### Fixed to floating rate mix liability



Further, we expect the sale of remaining stake in Shriram General Insurance Company Limited Shriram Life Insurance Company Limited in the coming quarters. This will help them to further improve their capital ratios and strengthen their balance sheet.

## Strategy going forward

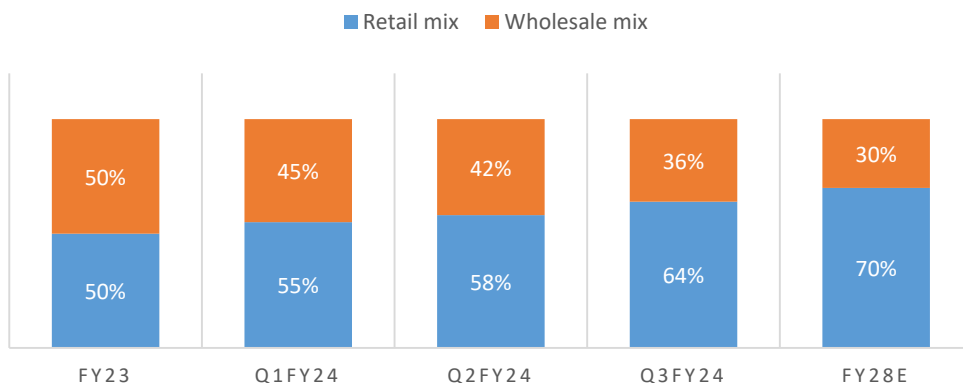


PEL has a clear growth strategy of increasing their retail portfolio. Their retail portfolio yield for unsecured product (which includes Embedded Finance, Unsecured Business Loan, Microfinance, Personal Loan) stands at 18 – 19%, whereas the disbursement yield for used car loan, secured MSME (LAP) and housing loan stood at 14.8%, 12.8% and 11.2% respectively. The increase in their retail portfolio will help them to increase their overall yields. The unsecured product constitute to 24% of the total retail portfolio and Used car loans comprises of only 4% of the retail portfolio. Used car loan industry is growing and has immense potential for growth going forward. This will help PEL to grow the used car segment. Their secured MSME (LAP) constitutes 23% of the total retail portfolio and Housing loan constitutes about 49% of the retail portfolio. The growth of unsecured product and used car segment will contribute to overall yield growth.

While focusing on increasing the retail portfolio, company is also focused on reducing their wholesale 1.0 book and building a new wholesale 2.0 book. The wholesale 2.0 book is more granular in terms of average ticket size. It includes two products which are Real estate and corporate mid market lending. The average ticket size for real estate is INR 1.72 bn and corporate mid market lending is INR 0.64 bn. It has helped them to improve their asset quality substantially.

The current retail to wholesale mix for Q3FY24 is at 64:36. It is expected to increase to 70:30 by FY28.

### RETAIL TO WHOLESALE MIX





## Growth on the Horizon: A Bright Outlook Ahead

Key Metrics	Q3FY24	FY28E
Total AUM	INR 672 bn	INR 1200 - 1300 bn
Retail: Wholesale mix	64:36	70:30
Retail AUM growth	54% YoY	23% CAGR
ROA	0.60%	3 - 3.3%
Asset to Equity	3.0	3.7

The company is intensifying its efforts towards resolving legacy issues associated with its wholesale book 1.0 while concurrently developing a more refined wholesale book 2.0. This strategic shift, albeit gradual, is poised to enhance the asset quality significantly. Currently, the wholesale 1.0 book constitutes 28% of the total Assets Under Management (AUM), with a clear trajectory towards complete elimination as the focus shifts towards nurturing the wholesale 2.0 book. Additionally, a heightened emphasis on retail lending is anticipated to drive positive performance in forthcoming quarters, particularly augmenting margins. Yield figures for Q3FY24 indicate a notable standing at 11.4%, with further improvement expected as the proportion of higher-yielding products within the retail portfolio expands.

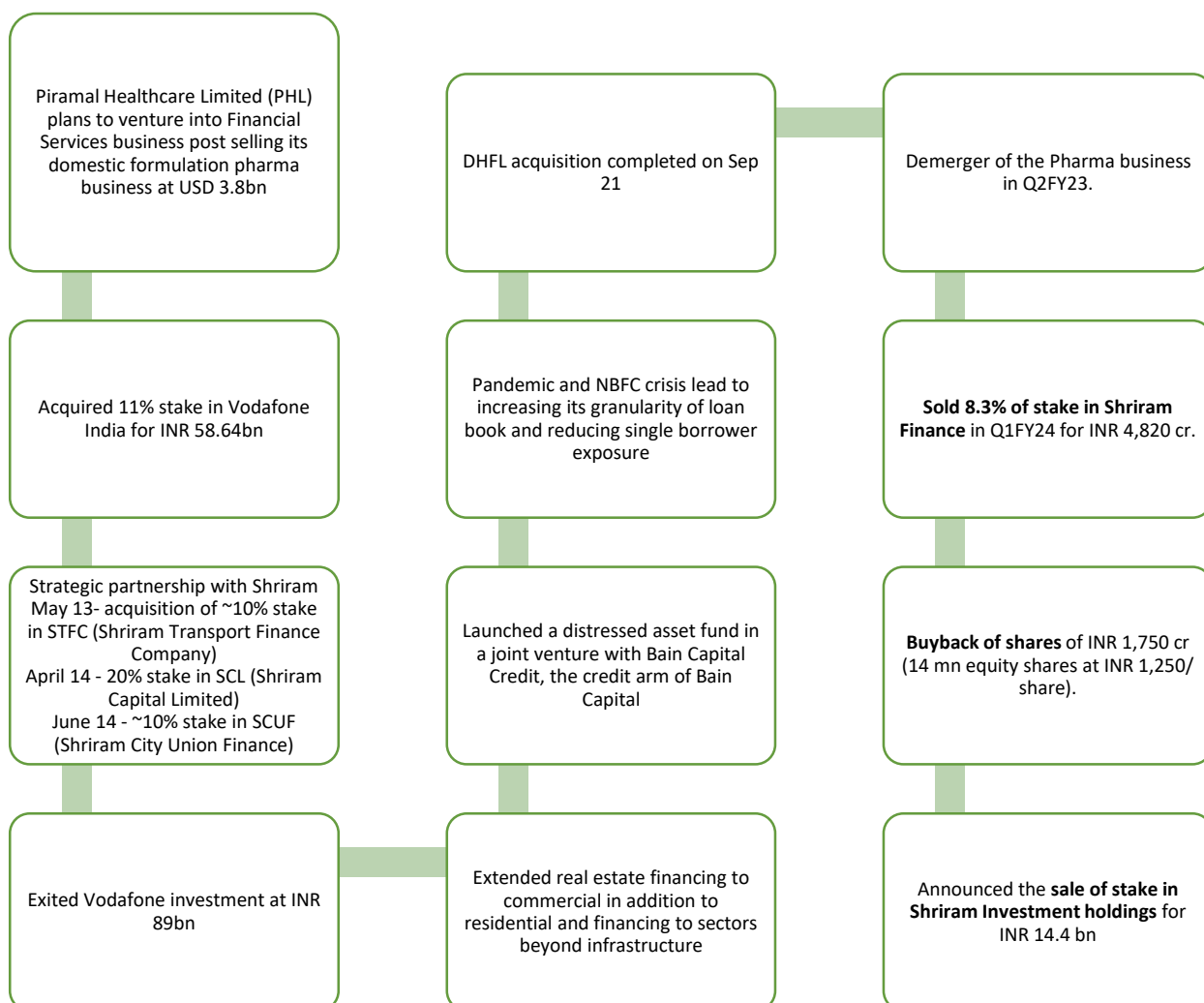
Currently, the share of higher-yielding products such as used car loans, salaried personal loans, microfinance loans, and unsecured business loans accounts for only 19.1% of the total AUM. However, there's a strategic shift in progress towards diversifying the retail portfolio, with housing dominating at 49.1% presently. This strategic shift is expected to bolster yields as the share of higher-yielding products in the retail portfolio grows.

Furthermore, the company is actively engaged in reducing its cost of borrowings, evident from the decline in the fixed-to-floating liability mix from 77% in Q3FY22 to 51% in Q3FY24. This concerted effort is aimed at reducing the cost of borrowings to 8% in the long term, consequently bolstering Net Interest Margins (NIMs). In the short term, the wholesale book 1.0 is anticipated to decrease through sale to Asset Reconstruction Companies (ARCs), with a targeted retail-to-wholesale mix of 70:30.

In the long term, the company has set ambitious targets, aiming to double its total AUM to INR 1.2 lakh crore by FY2028. Additionally, near-term initiatives include the monetization of Shriram Life Insurance. A comprehensive strategic overhaul is underway, addressing key issues such as low Return on Equity (ROE), high cost of funds, and legacy wholesale book challenges through strategic initiatives such as buybacks and the sale of non-performing assets to ARCs. Given these developments, our target price stands at INR 1650 in the bear case scenario and INR 2200 in the bull case scenario.

## Key Events

1. The company entered the financial services segment in 2011 and started its NBFC operations in 2012.
2. Sold domestic formulations business for \$3.8 bn, to Abbott in 2010 and then used the proceeds to acquire a stake in Vodafone India in 2011 for INR 58.64 bn.
3. In 2014, they invested a total of INR 45.83 bn in Shriram group of companies.
4. In the same year, they exited their Vodafone investment at INR 89 bn, against the investment of INR 58.64 bn made in 2011.
5. The company successfully integrated DHFL within one year of its purchase in September 2021.
6. In FY23, Pharma segment demerged into a separate entity named Piramal Pharma Ltd.
7. They sold 8.3% of stake in Shriram Finance in Q1FY24 for INR 4,820 cr.
8. In FY24, company completed Buyback of shares of INR 1,750 cr (14 mn equity shares at INR 1,250/ share).
9. Company announced the sale of stake in Shriram Investment holdings for INR 14.4 bn (Carrying value: 5.69 bn). It is expected to be completed by the end of Q4FY24



## About the management

Name	Designation	About
Rupen Jhaveri	Group President	He has close to two decades of experience across private equity and investment banking. Prior to joining PEL, he was the Managing Director of KKR India, a global investment firm. He holds a B.S., magna cum laude, from Leonard N. Stern School of Business of New York University.
Jairam Sridharan	CEO, Retail	He is the MD of Piramal Capital & Housing Finance Limited (PCHFL). He has over two decades of rich domain experience and specializes in setting up and scaling new businesses. Before joining Piramal, Jairam was the CFO of Axis Bank. He has handled a variety of roles at the Bank and was previously President, Retail Lending & Payments. In this role, he was responsible for driving growth in the retail lending and payments businesses comprising retail lending products (home, car, personal & other loans), cards business (credit, debit & prepaid) and the agriculture & rural lending business. In his 5 years in this role, Axis Bank saw industry leading, 6X growth and emerged as one of the top 5 retail lending institutions in the country.
Yash Nadkarni	CEO, Wholesale	He has over two decades of investing experience across debt, equity and special situations spanning India, Australia, and Southeast Asia. Before joining Piramal, he was the Managing Director & CEO of the India Real Estate lending business at global investment firm KKR, where he built a leading India real estate credit franchise.
Pankaj Gupta	CEO, Pramerica Life	Pankaj Gupta has over 26 years of rich experience in Financial Services across Banking and Life Insurance sector in highly reputed companies such as ICICI, Citigroup and HDFC, both in India and overseas. In his most recent role, Pankaj was a member of HDFC Life Executive Committee and Group Head - Credit Life, Banca Alliances, Strategic Alliances, Digital Alliances and Distribution Strategy. He is a Bachelor of Technology from Indian Institute of Technology (IIT), Kanpur and has a Post Graduate Diploma in Management from Indian Institute of Management (IIM), Lucknow.
Kalpesh Kikani	CEO, Piramal Alternatives	He has over twenty-five years of expertise in investing and financial services including a decade as the founding Managing Director at AION Capital, a joint venture between Apollo Global Management and ICICI Group to invest in buyouts, distressed and hybrid capital solutions. He holds a Bachelor of Engineering Degree in Computer Science and an MBA in Finance from Bombay University and is a member of the CFA Institute, USA.
Upma Goel	CFO	Her core competencies lie in business strategy, financial control, capital restructuring, M&A, tax, risk management and regulatory compliances. Upma joined Piramal as CFO – Retail Finance Business of Piramal Capital & Housing Finance Ltd. and was subsequently elevated to CFO of PEL. Prior to Piramal, she was the CFO & Key Management Personnel at Ujjivan Small Finance Bank Limited and played a critical role in upscaling the finance function, successful transition of the NBFC MFI into the Bank. She is a Chartered Accountant with three decades of post qualification experience in the financial services industry.

## Key Financials

P&L (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest income	75,228	77,986	82,230	91,354	104,660
Interest expense	42,251	39,943	43,987	50,028	55,418
<b>NII</b>	<b>32,977</b>	<b>38,043</b>	<b>38,243</b>	<b>41,326</b>	<b>49,242</b>
Non-interest income	3,881	4,794	4,727	4,907	5,225
<b>Net revenues</b>	<b>36,858</b>	<b>42,837</b>	<b>42,970</b>	<b>46,233</b>	<b>54,467</b>
Operating expenses	11,541	66,251	18,414	18,434	21,873
Depreciation	743	1,229	1,352	1,446	1,548
<b>Total Opex</b>	<b>12,284</b>	<b>67,480</b>	<b>19,766</b>	<b>19,880</b>	<b>23,421</b>
<b>PBT</b>	<b>16,275</b>	<b>(24,643)</b>	<b>13,869</b>	<b>21,761</b>	<b>25,916</b>
Tax	4,062	(39,781)	3,495	5,484	6,531
<b>PAT (Before Extraordinary item)</b>	<b>12,213</b>	<b>15,137</b>	<b>10,374</b>	<b>16,277</b>	<b>19,385</b>
Share of Net Profit of associates & JV		5,939	3,886	-	-
Exceptional Items	1,836	80,663	-	-	-
<b>PAT</b>	<b>19,988</b>	<b>99,686</b>	<b>10,374</b>	<b>16,277</b>	<b>19,385</b>

Balance sheet	FY22	FY23	FY24E	FY25E	FY26E
Share capital	477	477	449	449	449
Reserves & surplus	367,892	310,114	298,988	312,859	328,256
<b>Net worth</b>	<b>368,369</b>	<b>310,591</b>	<b>299,438</b>	<b>313,308</b>	<b>328,706</b>
Borrowings	553,244	212,945	531,102	618,967	684,993
Deposits	1,266	1,269	1,273	1,276	1,280
Other liability	64,471	312,717	343,988	378,387	416,226
<b>Total liabilities</b>	<b>987,350</b>	<b>837,522</b>	<b>1,175,801</b>	<b>1,311,938</b>	<b>1,431,204</b>
Fixed assets	89,860	98,846	103,788	108,978	114,427
Advances	493,180	463,946	639,595	742,195	825,128
Investments	248,565	223,318	205,452	215,725	226,511
Cash	71,870	46,491	47,500	48,000	50,400
Other assets	83,875	4,921	179,465	197,041	214,738
<b>Total assets</b>	<b>987,350</b>	<b>837,522</b>	<b>1,175,801</b>	<b>1,311,938</b>	<b>1,431,204</b>

## Key Ratios

Ratios	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth (%)</b>					
NII		15.36%	0.53%	8.06%	19.15%
PBT		-251.42%	156.28%	56.90%	19.09%
PAT		23.94%	-31.46%	56.90%	19.09%
Advances		-5.93%	37.86%	16.04%	11.17%
Deposits		0.22%	0.30%	0.30%	0.30%
<b>Spread (%)</b>					
Yield on Funds	12.90	12.00	12.20	12.00	12.20
Cost of Borrowings	9.53	8.60	8.80	8.70	8.50
Spread	3.37	3.40	3.40	3.30	3.70
NIM	5.30	5.80	5.67	5.43	5.74
<b>Asset quality (%)</b>					
Gross NPAs	3.61	6.80	5.00	4.00	4.00
Net NPAs	1.72	2.49	1.65	1.22	1.31
Provisions	55.19	67.00	70.00	72.00	70.00
<b>Return ratios (%)</b>					
RoE	7.3	29.4	3.4	5.3	6.0
RoA	2.6	10.9	1.0	1.3	1.4
<b>Per share (Rs)</b>					
EPS	84	418	46	72	86
BV	1544	1301	1333	1395	1463
ABV	1502	1237	1282	1352	1413
<b>Valuation (x)</b>					
P/E	9.7	1.9	17.6	11.2	9.4
P/BV	0.5	0.6	0.6	0.6	0.6
P/ABV	0.5	0.7	0.6	0.6	0.6

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
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